

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**SB 33 - HB 122**

February 10, 2015

**SUMMARY OF BILL:** Exempts from state and local sales and use tax the sale of diabetic testing supplies for human use, including lancets, test strips for blood glucose monitors, visual read test strips, and urine test strips.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact – \$1,707,700**

**Decrease Local Revenue – Net Impact – \$696,900**

Assumptions:

- United States Centers for Disease Control and Prevention estimates there were 589,696 adults in Tennessee in 2012 diagnosed with diabetes. This number is assumed to remain constant into perpetuity.
- American Diabetes Association estimates that the 2012 average expenditure on diabetic supplies per person diagnosed with diabetes was \$103. This number is assumed to remain constant into perpetuity.
- The total annual sales of diabetic testing supplies in Tennessee are estimated to be \$60,738,688 (589,696 x \$103).
- Diabetic testing supplies used by non-profit organizations are exempt from sales tax under current law. Thirty percent of sales, or \$18,221,606 (\$60,738,688 x 30.0%), are estimated to be exempt. Taxable sales are estimated to be \$42,517,082 (\$60,738,688 - \$18,221,606).
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The recurring amount of state sales tax which is owed is estimated to be \$2,976,196 (\$42,517,082 x 7.0%); the recurring amount of local option sales tax which is owed is estimated to be \$1,062,927 (\$42,517,082 x 2.5%).
- Diabetic supplies are obtained either by prescription or over the counter.
- Twenty five percent of total sales are assumed to be over-the-counter purchases. These purchases are assumed to be made by individuals who purchase their supplies without prescriptions or by individuals who have a prescription, but no health care insurance plan. It is further assumed that individuals who have prescriptions, but no health care

insurance plan, are directed by pharmacies to over-the-counter supplies. State and local sales taxes which are owed on over-the-counter purchases are assumed to be collected and remitted under current law. As a result, approximately \$744,049 ( $\$2,976,196 \times 25.0\%$ ) of state sales taxes and approximately \$265,732 ( $\$1,062,927 \times 25.0\%$ ) of local option sales taxes which are owed are assumed to be collected under current law.

- The remaining 75 percent of total sales are assumed to be by individuals that obtain their diabetic supplies via prescription and that have a health care insurance plan. Such individuals are assumed to not be paying state and local sales taxes as owed, as they only pay their required co-pays as part of the health care insurance plans. When the insurance companies reimburse the applicable pharmacies for the cost of the diabetic supplies, the reimbursements are net of any sales taxes which are owed on the supplies. As a result, users unknowingly obtain the diabetic supplies without sales taxes being collected on such items, which indirectly cause pharmacies to often pay the sales taxes which are owed. However, many pharmacies may not be remitting the sales taxes as owed because they are under the impression that such items are already sales tax exempt under current law. Therefore, some pharmacies may be remitting sales taxes, while others may not.
- For diabetic supplies which are obtained via prescription by individuals with health care insurance plans, it is estimated that sales taxes are collected and remitted on 50 percent of such supplies. As a result, approximately \$1,116,074 ( $\$2,976,196 \times 75.0\% \times 50.0\%$ ) of state sales taxes and approximately \$398,598 ( $\$1,062,927 \times 75.0\% \times 50.0\%$ ) of local option sales taxes which are owed is assumed to be collected under current law.
- Total state sales tax collections under current law are estimated to be \$1,860,123 ( $\$744,049 + \$1,116,074$ ); total local option sales tax collections under current law are estimated to be \$664,330 ( $\$265,732 + \$398,598$ ).
- The effective rate of apportionment of state sales tax revenue to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The recurring decrease in local revenue pursuant to the state-shared allocation is estimated to be \$67,281 ( $\$1,860,123 \times 3.617\%$ ).
- The net recurring decrease in state sales tax revenue is estimated to be \$1,792,842 ( $\$1,860,123 - \$67,281$ ).
- The total recurring decrease in local sales tax revenue is estimated to be \$731,611 ( $\$664,330 + \$67,281$ ).
- Fifty percent of tax savings will be spent in the economy on sales taxable goods and services.
- Total tax savings are estimated to be \$2,524,453 ( $\$1,792,842 + \$731,611$ ).
- The net recurring increase in state sales tax revenue attributable to 50 percent of tax savings being spent in the economy is estimated to be \$85,160 [ $(\$2,524,453 \times 50.0\% \times 7.0\%) - (\$2,524,453 \times 50.0\% \times 7.0\% \times 3.617\%)$ ].
- The total recurring increase in local sales tax revenue attributable to 50 percent of tax savings being spent in the economy is estimated to be \$34,752 [ $(\$2,524,453 \times 50.0\% \times 2.5\%) + (\$2,524,453 \times 50.0\% \times 7.0\% \times 3.617\%)$ ].
- The net recurring decrease in state revenue as a result of this bill is estimated to be \$1,707,682 ( $\$1,792,842 - \$85,160$ ).
- The net recurring decrease in local revenue as a result of this bill is estimated to be \$696,859 ( $\$731,611 - \$34,752$ ).

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in dark ink, reading "Jeffrey L. Spalding". The signature is written in a cursive, flowing style with a large initial "J".

Jeffrey L. Spalding, Executive Director

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